

County of Hawai`i

*Presentation to the Senate
Committee on Ways and Means
and the House of Representatives
Committee on Finance*

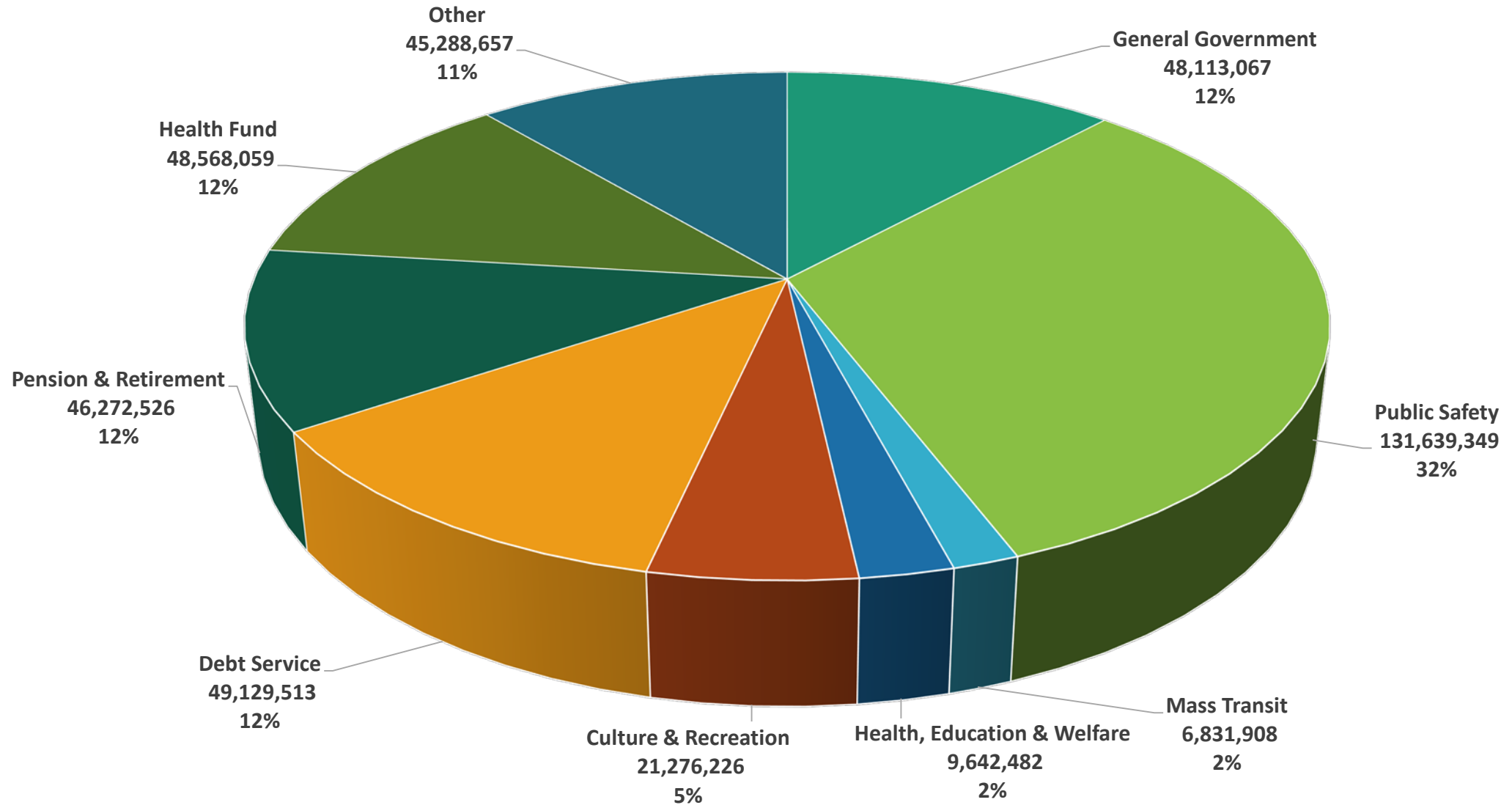
January 19, 2018

Hawai'i County Financial Position - Expenditures

- Current year (2017-18) General Fund budget is \$406,761,787
 - Salaries and wages, and benefits are 62.5% of budget
 - Debt service is 12.1% of budget
 - Leaving only 25.4% of the budget allocated to all other cost of operations in the General Fund
 - In the last five years these costs have gone from 29% to the current 25%
- General Fund includes:
 - Police Department
 - Fire Department
 - Office of the Prosecuting Attorney
 - Civil Defense, Planning, Public Works, Finance, Human Resources, etc.

Fiscal Year 2018 – General Fund Budget

\$406,761,787



Uncontrollable Increases

- Total increase of ERS, OPEB, debt service & EUTF over 4 years - **\$50 million**
- Amount does not include collective bargaining unit salary & wage increases

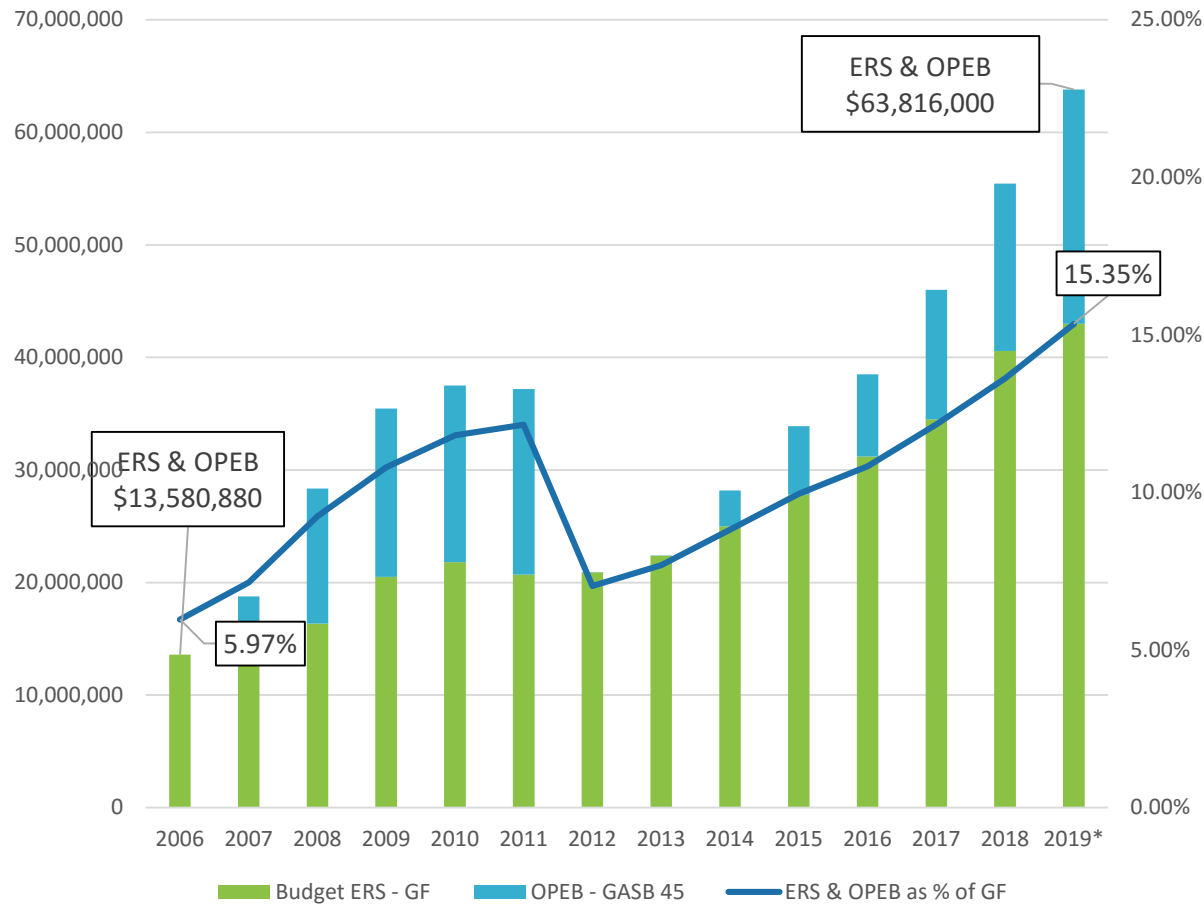
GENERAL FUND UNCONTROLLABLE INCREASES

(ERS, OPEB, Debt Service, EUTF)

	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>
ERS	34,500,000	39,005,281	43,000,000	51,000,000	58,000,000
OPEB	11,495,000	14,867,200	20,816,000	20,923,000	20,462,000
Debt Service	43,858,131	49,129,513	48,182,598	49,512,085	50,327,253
TOTAL	89,853,131	103,001,994	111,998,598	121,435,085	128,789,253
EUTF	31,000,000	33,700,859	35,000,000	38,500,000	42,000,000
TOTAL with EUTF	120,853,131	136,702,853	146,998,598	159,935,085	170,789,253

<u>Increase/Change</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>TOTAL INCREASE</u>
ERS	4,505,281	3,994,719	8,000,000	7,000,000	23,500,000
OPEB	3,372,200	5,948,800	107,000	-461,000	8,967,000
Debt Service	5,271,382	-946,915	1,329,487	815,168	6,469,122
TOTAL	13,148,863	8,996,604	9,436,487	7,354,168	38,936,122
EUTF	2,700,859	1,299,141	3,500,000	3,500,000	11,000,000
TOTAL with EUTF	15,849,722	10,295,745	12,936,487	10,854,168	49,936,122

General Fund ERS & OPEB % of General Fund



ERS and OPEB (GASB 45)

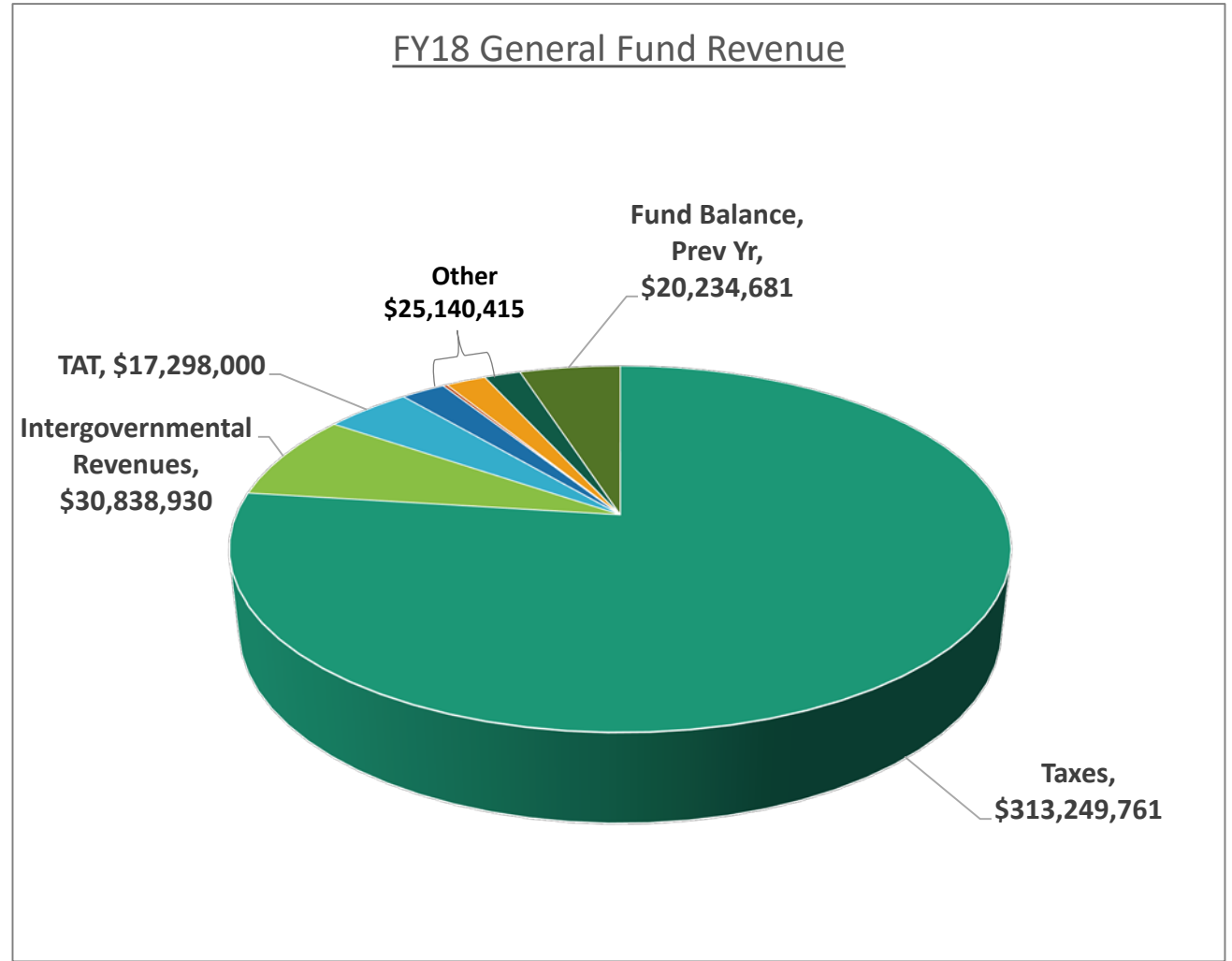
- Employer contribution for Other Post Employee Benefits (OPEB) Statutory mandate - Act 268 (2013)
- Hawai'i County contribution increased to 80% in FY18 and to 100% of liability in FY19
- Total ERS and OPEB increasing to 15.35% of general fund in FY19 from 5.97% in FY06

Hawai'i County Financial Position - Revenues

- Revenue to fund current year (2017-18) General Fund expenditures is derived from:
 - Real Property Tax and Public Service Company Tax – 77.0%
 - County portion of Transient Accommodations Tax – 4.3%
 - Previous year Fund Balance – 5.0%
 - Licenses and permits, charges for services, and miscellaneous – 6.1%
- Grant revenues account for 7.6% of the General Fund revenue, but are generally restricted to specific grant purposes

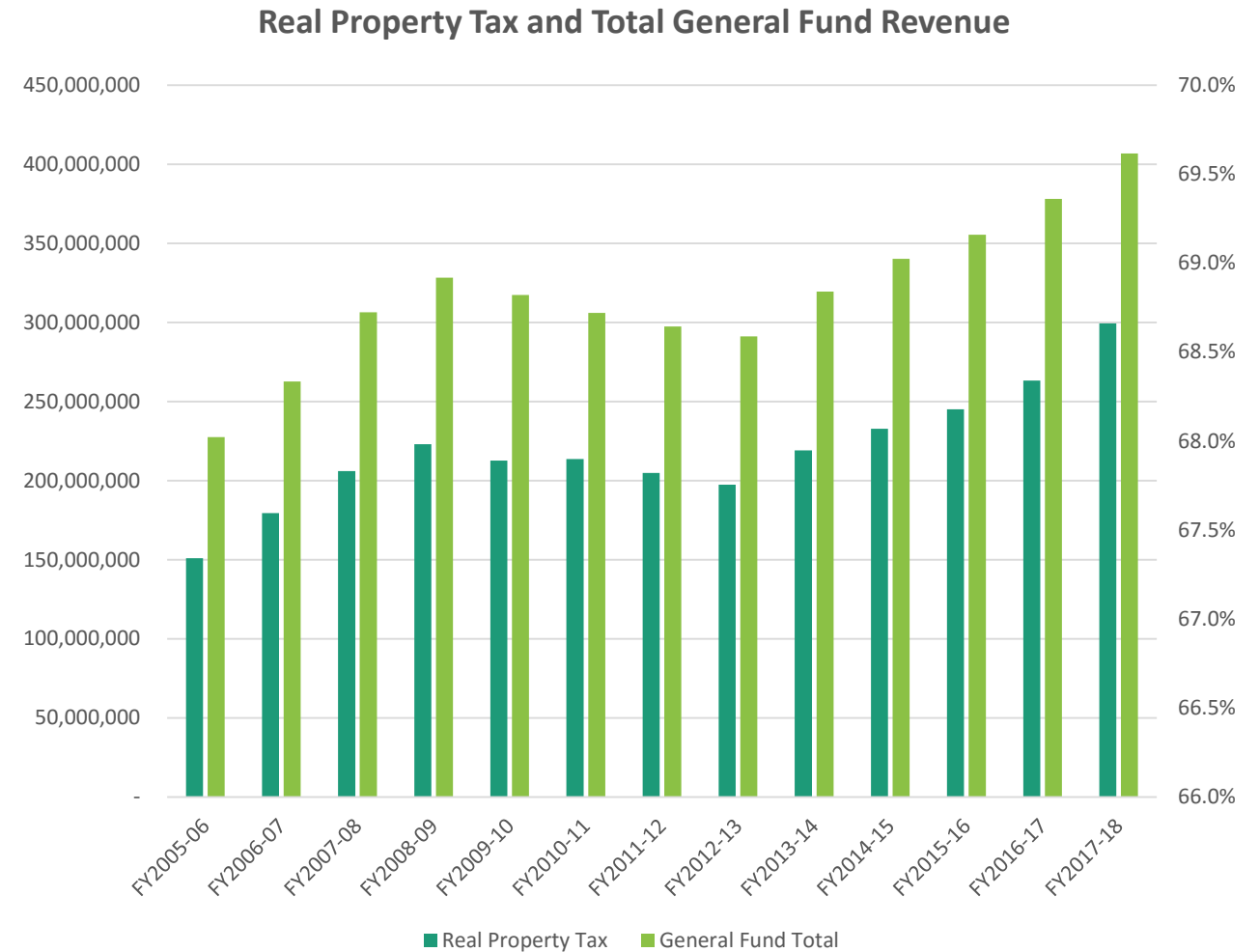
FY 18 General Fund Revenues:

77.0%	Taxes (Real Property Tax = 74.5%)
7.6%	Intergovernmental Revenue (grants)
5.0%	Previous year fund balance
4.3%	Transient accommodation tax (capped by Legislature)
2.2%	Licenses & Permits
2.0%	Charges for Services
<u>1.9%</u>	Miscellaneous revenues
100%	Total Revenues, \$406,761,787



Real Property Tax

- Largest source of revenue for the County
- Expected increases in real property tax revenues are not keeping pace with increasing labor, benefits, and operating expenses
- Real property tax rates increased to cover revenue shortfalls for FY 2018
- The increase provided an additional \$20.8m in revenue which allowed us to balance the budget



FY 2018 TAX INCREASE

Real Property Tax Increase

- General Fund expenditure projections including ERS, EUTF, OPEB and 2% salary increase resulted in a shortfall of \$25 million
- Department budgets were cut and real property tax rates were increased to make up the revenue shortfall
- Rates for all classes except homeowner and affordable rental were increased
- 5% average tax rate increase
- 100% minimum tax increase (except for properties valued at ≤ \$500)

Tax Rate Per Thousand Net Taxable Building & Land	<u>FY 2017</u>	<u>FY 2018</u>	<u>% Increase</u>
Residential	10.05	11.10	10.4%
Affordable Rental Housing	6.15	6.15	0.0%
Apartment	10.85	11.70	7.8%
Hotel & Resort	10.85	11.55	6.5%
Commercial	10.05	10.70	6.5%
Industrial	10.05	10.70	6.5%
Agricultural or Native Forest	9.25	9.35	1.1%
Conservation	10.85	11.55	6.5%
Homeowner	6.15	6.15	0.0%

<u>Minimum Tax</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>% Increase</u>
Minimum Tax	\$100	\$200	100.0%
Assessed value ≤ \$75,000	\$75	\$150	100.0%
Assessed value ≤ \$50,000	\$50	\$100	100.0%
Assessed value ≤ \$25,000	\$25	\$50	100.0%
Assessed value ≤ \$500	\$25	\$0	-100.0%

Hawai'i County Financial Position – Fund Balance

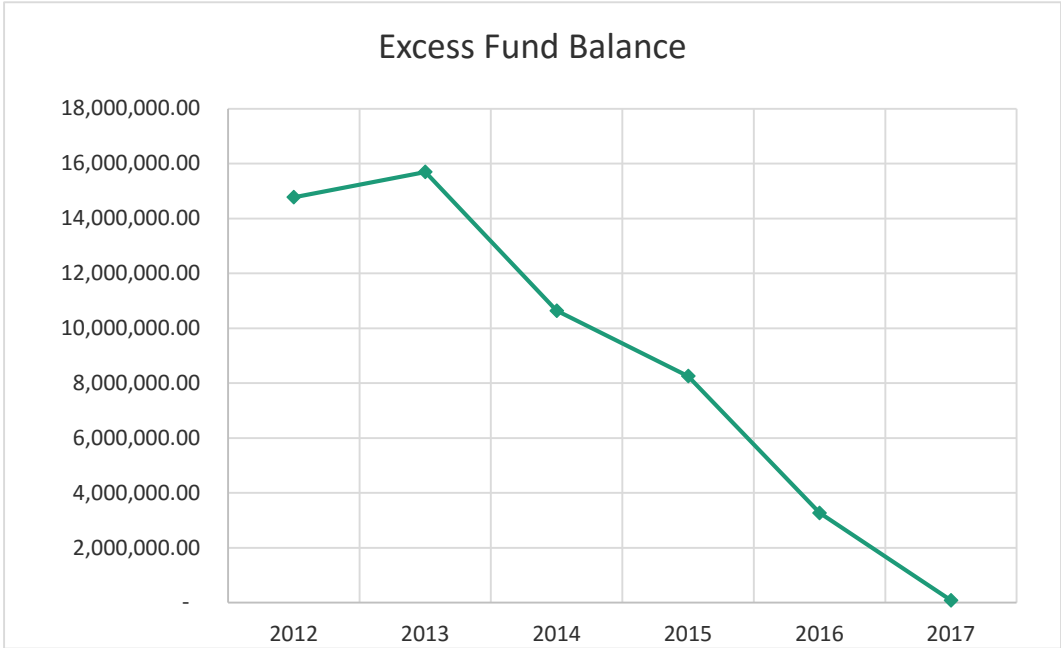
In order to fund the County's General Fund operations for the current year it was necessary to raise real property tax rates and to commit \$20,000,000 of the previous year fund balance. This left a remaining unrestricted fund balance of only \$89,000.

Fund Balance Trend - General Fund

Fund Balance:

- Excess at the end of fiscal year is the fund balance (FB)
- Estimated FB is used to balance the following year's budget
- Excess fund balance is a reserve for revenue shortfalls or expenditure increases due to unanticipated events
- Of \$20.3M ending FB in 2017, \$20.2M was budgeted as revenue for fiscal year 2018
- Excess FB for 2017 was \$89K

<u>Fiscal Year</u>	<u>Excess Fund Balance</u>
2012	14,773,951.86
2013	15,692,177.30
2014	10,641,254.85
2015	8,255,573.12
2016	3,271,870.26
2017	88,925.32

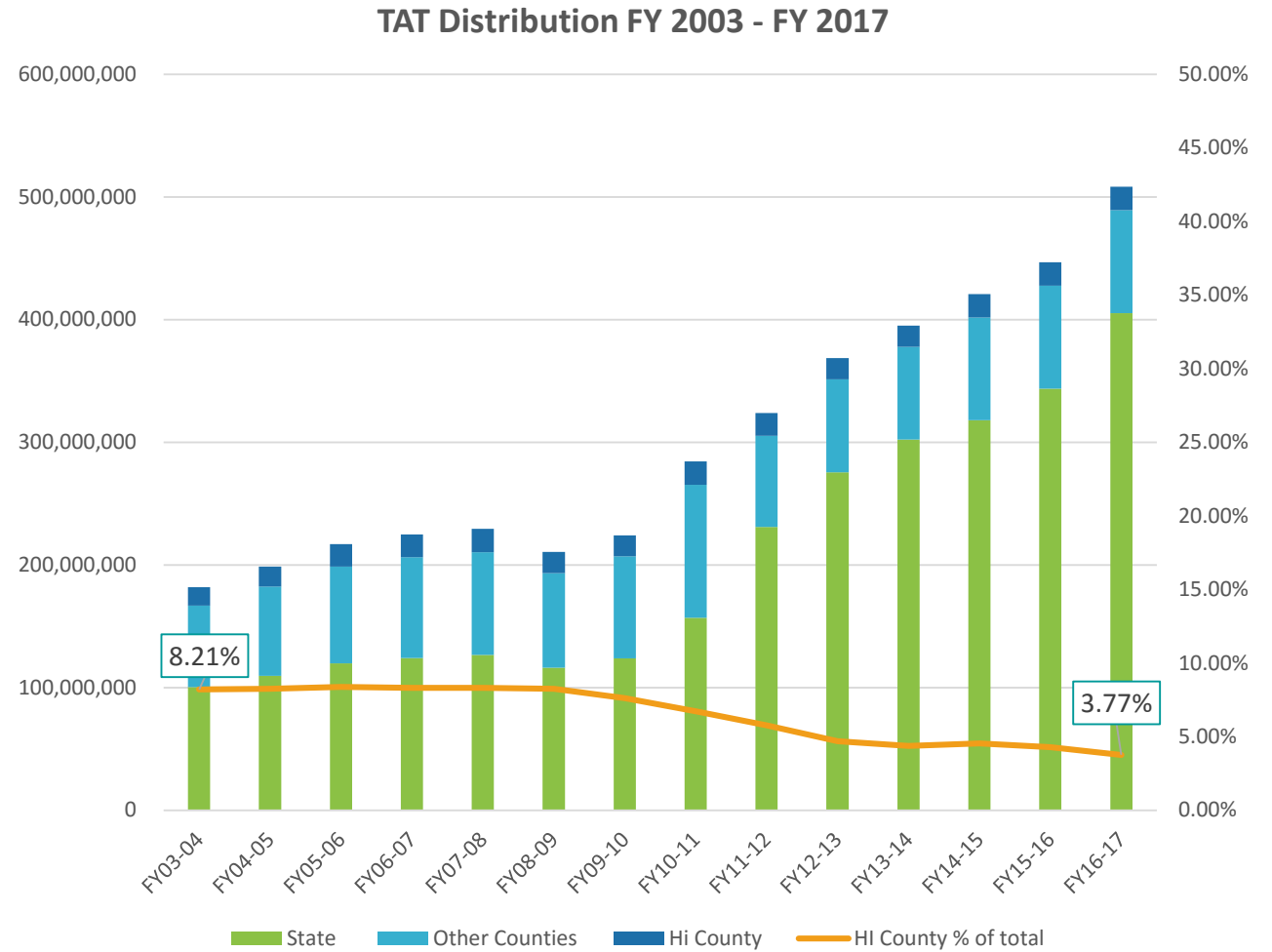


Funding Concerns

- The State of Hawai‘i has tax revenue sources that include income tax, general excise tax (GET), transient accommodations tax (TAT), use tax – to name a few
- Hawai‘i County has very limited taxing authority to provide funds for unrestricted general operations, including public safety
- Hawai‘i County has only real property tax and public service company tax as unrestricted tax sources
- The portion of transient accommodations tax allotted to the County is the only other significant source of unrestricted revenue for the General Fund

TAT (Transient Accommodation Tax)

- Second largest source of revenue for Hawai'i County
- TAT revenue for State increased 180%, from \$181.8M in FY 2004 to \$508.4M in FY17
- Hawai'i County received 8.21% of total TAT revenue collected by the State in FY 2004 compared to 3.77% in FY 2017
- Legislature capped distribution to counties at \$103M
- Hawai'i County's share is set by the Legislature at \$19.2M



Operational Priorities

Hawai'i County requests the following legislative considerations:

- Support of all programs related to and addressing the homeless
- The continued growth of the senior population emphasizes the need for support of programs addressing their needs
- Maintain Department of Education funding under the State
- Provide liability coverage for beach lifeguards
- Support State projects related to Rapid Ohia Death, Rat Lungworm disease, Little Fire Ants, Coqui Frog control
- Authorize County control over the permitting and enforcement of vacation rental properties

Capital Project Priorities

Hawai'i County requests the following legislative considerations:

- Puna is the fastest growing district in the state and the most populated district on this island
- The County wishes to emphasize the extreme need in Puna for all services and infrastructure
- Funding support for continued widening and improvement of Highway 130 in Puna
- Funding support for Puna inner-connectivity projects
- Continued funding for the State portion of Kalaniana'ole Avenue Reconstruction

The Honorable Senators Donovan M. Dela Cruz, Chair and Gilbert S.C. Keith-Agaran, Vice Chair, and members of the Senate Committee on Ways and Means

The Honorable Representatives Sylvia Luke, Chair and Ty J.K. Cullen, Vice Chair, and members of the House Committee on Finance

Thank you for your interest and your continuing support

The Honorable Harry Kim, Mayor
County of Hawai'i